

Secrest & Secrest

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5 February 2009

2009-00054

MR.DENNIS BRENT KIRTLEY, MANAGER
OF TARIFF REVIEW BRANCH
PUBLIC SERVICE COMMISSION
P O BOX 615
FRANKFORT KY 40601

RECEIVED

FEB 9 2009

PUBLIC SERVICE
COMMISSION

In re: PURCHASE WATER ADJUSTMENT FOR
ALLEN COUNTY WATER DISTRICT
KRS 278.012; KRS 278.015; 807 KAR 5:068

Dear Mr. Kirtley:

We againl acknowledge, with sincere thanks, your e-mail of Monday, December 1, 2008; and also our letter of December 30, 2008.

At its regular meeting the Board of Commissioners of the Allen County Water District adopted the revised version of the Tariff as to the increase in Wholesale Water Rates effective July 1, 2009. I trust that my revision is in compliance with your e-mail of December 1, 2008. We are enclosing the revisions as follows:

1. The original Resolution of the Board of Commissioners of the Allen County Water District, dated February 3, 2009, together with the following attachments:
 - (a) A letter from Glasgow Water Company to the Allen County Water District, dated May 16, 2008, enclosing a copy of Ordinance no. 2633, City of Glasgow, Kentucky, dated July 1, 2008.
 - (b) Letter from Kenvirons, Inc. to Allen County Water District, dated July 25, 2008, together with the attachment thereto calculating the water rate adjustment prepared by Carlos E. Miller, P.E.
2. Copy of the Tariff adopted by the Board of Commissioners of the Allen County Water District, pursuant to said Resolution on Tariff pages, together with the same documents that were included with the Resolution.

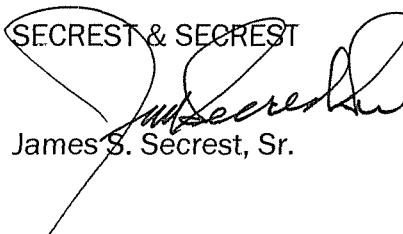
If these documents meet with the approval of the Public Service Commission, please let us know so the Allen County Water District can give notice to its customers.

Mr. Dennis Brent Kirtley
Page 2
5 February 2009

With regard to your letter of December 30, 2008, we have revised the Tariff to allow for charges to developers when reinforcing infrastructure is required outside of the development. We are enclosing a draft. Hopefully, this Tariff, together with the others that were mentioned in our letter of September 4, 2008, will be adopted by the Board of Commissioners at its March meeting. At which time, we will forward to you for approval.

If you have any questions or need more information, please do not hesitate to let us know. Please advise Thank you.

Yours truly,

SECRET & SECRET

James S. Secrest, Sr.

JSS:CBR
Enclosures

cc: ALLEN COUNTY WATER DISTRICT
MR. CARLOS MILLER, P.E.

RESOLUTION AS TO INCREASE IN WHOLESALE WATER RATE

KRS 278.015(2) AND 807 KAR 5:068 provides essentially the manner in which a Water District may implement a Purchase Water Adjustment designed to recover the actual cost of water purchased by a Water District from a wholesale supplier.

The Allen County Water District purchases substantially all of its water from the Glasgow Water and Sewer Commission of Glasgow, Kentucky. By its Ordinance No. 2633, the City of Glasgow, Kentucky, established new rates for the Glasgow Water and Sewer Commission to charge increased new wholesale rates to be charged to its customers, including the Allen County Water District, effective July 1, 2008. A copy of said Ordinance is attached hereto as a part hereof, effective July 1, 2008.

The Allen County Water District was notified of this increase by a letter from the Glasgow Water Company, dated May 16, 2008. A copy of said letter is filed herewith as a part hereof.

By Letter dated July 25, 2008, to the Allen County Water District from its engineer, KENVIRONS, INC., the Water District was informed "The indication is that the district could absorb the increased purchased water cost relative to the \$1.75 per thousand gallons rated along with the adjustments to the 2007 expenses. Next year the rate will increase to \$1.95. Based on the same parameters, the purchased water cost will increase an additional \$69,092, which would cause a negative net income of approximately \$41,000. The above calculations do not consider any customer growth, which would generate a small amount of additional revenues. The conclusion is that the district would absorb the initial \$1.75 per thousand rate, but not the \$1.95 that is proposed to be effective next year. The \$1.75 rate results in an increase in customer rate of \$0.41 per thousand gallons. The \$1.95 rate result in an additional \$0.23 per thousand gallons for a total of \$0.64 per thousand gallons."

NOW, THEREFORE, be it RESOLVED by the Board of Commissioners of the Allen County Water District in regular session this 3rd day of February, 2009, as follows:

1. That the Allen County Water District adopts as Tariff the provision of KRS 278.015(2) AND 807KAR 5:068, providing that when a wholesale supplier selling water (Glasgow Water and Sewer Commission) to water district (Allen County Water District) the district shall have the authority to increase its rate commensurate with the wholesale supplier without prior approval by the Public Service Commission.

Within twenty (20) days after any such increase in rates, the district shall file its revised tariffs with the Commission, together with a copy of the Notice from its wholesale supplier showing the increase in the rate charged to the utility, and a statement of the volume of purchased water used to calculate the increase in rates. The Commission shall approve the filing or establish revised rates by order no later than thirty (30) days after the above document are filed with it. Prior to or at the time of the first billing of the new rates, the district shall give notice to its customers of the increase.

2. The last increase in Allen County Water District's rates was May 25, 1993 when the rates were increased from \$13.45 to 16.17.

3. That, based on the report of Kenvirons, the Allen County Water District elects to absorb the increase in the purchased water costs (from Glasgow Water Company) effective July 1, 2008 from \$1.40 per one thousand gallon to \$1.75 per one thousand gallon along with the adjustment to the 2007 expenses. This increase will not be passed on to customers of the Allen County Water District.

4. That the Allen County Water District will be unable to absorb the \$1.95 per one thousand gallons rate increase, which the Glasgow Water Company will charge effective July 1, 2009. Therefore, the Allen County Water District will calculate its rates on a \$0.20 increase (\$1.75 to \$1.95) from the Glasgow Water Company

5. Therefore, based on the conclusions of Carlos Miller, P.E. as shown in his letter of July 25, 2008, the increase in customer rates effective July 1, 2009 is \$0.64 per one thousand gallons.

6. This tariff/resolution is subject to the approval of the Public Service Commission. Once the Commission approves, the Allen County Water District will notify all customers of the new rates prior to the first billing of the new rates

The Resolution was put to a vote. There 5 ayes and 0 nays, and the Chairman declared the Resolution passed.

ALLEN COUNTY WATER DISTRICT

BY: John Jones
JOHN H. JONES, CHAIRMAN

ATTEST: Gacey St. Oliver
SECRETARY



SCOTT YOUNG, MANAGER
BILLY R. CARVER, JR., ASSISTANT MANAGER
PHONE: (270) 651-3727
FAX: (270) 651-1651
P.O. BOX 819
GLASGOW, KENTUCKY 42142-0819



BOARD OF COMMISSIONERS:
JERRY A. BOTTS, CHAIRMAN
BUDDY UNDERWOOD, VICE CHAIRMAN
WOODFORD L. GARDNER, JR., SECRETARY-TREASURER
JIM MARION, COUNCIL REPRESENTATIVE
DARRELL G. PICKETT, MEMBER-MAYOR

Glasgow Water and Sewer Commission

May 16, 2008

Allen County Water District
P.O. Box 58
Scottsville, KY 42164

RE: Wholesale Rate Increase

Dear Wholesale Customer:

Due to increased operating expenses the Glasgow Water and Sewer Commission has determined that our wholesale water rate must be increased. The current wholesale rate of \$1.40 per one thousand gallons has been in effect for over five years. The new rate will be an increase of 55 cents per one thousand gallons. However, the new rate will be phased over a two year period as follows: On July 1, 2008, the wholesale rate to be charged for water purchased on and after that date shall be \$1.75 per one thousand gallons. On July 1, 2009, the wholesale rate to be charged for water purchased on and after that date shall be \$1.95 per one thousand gallons.

The rate change will be effective July 1, 2008, however it will not appear on your bill until August, because it will apply only to water used after July 1, 2008.

A detailed rate analysis was performed to determine the necessary rate increase. The analysis addresses both wholesale and retail rates independently and examines expenses attributed to the wholesale rate. Approximately 34% of all water sold by the Glasgow Water Company provides service to our wholesale customers. The rate analysis indicates that the current rate is among the lowest in the state of Kentucky while the proposed rate is below the \$1.97 average of wholesale rates available on the Public Service Commission's website.

Enclosed you will find a Public Service Commission tariff sheet, a copy of the wholesale water rate ordinance, and a copy of the cost study analysis used to determine the new wholesale rate.

The Glasgow Water Company appreciates the great working relationship with your utility and will always work diligently with you in the supply of water to your customers. If you have any questions regarding the matter please contact me anytime.

Respectfully,

Scott Young, Manager
Glasgow Water Company

Received
MAY 20 2008
Allen Co. Water District

CITY OF GLASGOW

ORDINANCE NO. 2633

AN ORDINANCE ESTABLISHING NEW RATES FOR THE GLASGOW WATER AND SEWER COMMISSION FOR WHOLESALE WATER RATE

THAT, WHEREAS, increasing operating expenses and capital demands have rendered the existing schedule of rates inadequate to properly provide for the operation, maintenance and expansion of the Glasgow Water and Sewer Commission; and

WHEREAS, the Glasgow Water and Sewer Commission has unanimously recommended that the wholesale water rate be increased, over a two (2) year period, to properly provide for the operation, maintenance and expansion of the Glasgow Water and Sewer Commission, a copy of the Commission's Resolution relating to same is attached hereto as **Exhibit A**;

NOW, THEREFORE, BE IT HEREBY ORDAINED by the City of Glasgow, Kentucky, as follows:

SECTION 1. The wholesale water rate set forth in Section 2 of this Ordinance shall become effective, and applied to, all bills rendered by the Glasgow Water and Sewer Commission for wholesale water purchases described in this Ordinance on and after July 1, 2008.

SECTION 2. On and after July 1, 2008, the wholesale water rate to be charged for wholesale water purchases are as follows:

All used: \$1.75 ~ [~~\$1.40~~] per one thousand (1000) gallons.

SECTION 3. The wholesale water rate set forth in Section 4 of this Ordinance shall become effective, and applied to, all bills rendered by the Glasgow Water and Sewer Commission for wholesale water purchases described in this Ordinance on and after July

FOR Glasgow, Kentucky
Name of Municipality

P.S.C. KY. NO. 1

1st Revised SHEET NO. 1

Glasgow Water Company
(Name of Municipal Utility)

CANCELLING P.S.C. KY. NO. 1

Original SHEET NO. 1

RATES AND CHARGES

WHOLESALE WATER RATE:

Effective July 1, 2008

Allen County Water District	\$1.75 per 1000 gallons
Fountain Run Water District	\$1.75 per 1000 gallons
Green River Valley Water District	\$1.75 per 1000 gallons
Warren County Water District	\$1.75 per 1000 gallons

Effective July 1, 2009

Allen County Water District	\$1.95 per 1000 gallons
Fountain Run Water District	\$1.95 per 1000 gallons
Green River Valley Water District	\$1.95 per 1000 gallons
Warren County Water District	\$1.95 per 1000 gallons

NOTE: This tariff page revises the rate of \$1.40 per 1000 gallons listed on the tariff page stamped effective by the PSC on May 1, 2003.

DATE OF ISSUE June 1, 2008

Month / Date / Year

DATE EFFECTIVE July 1, 2008

Month / Date / Year

ISSUED BY _____

(Signature of Officer)

TITLE _____

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO. n/a DATED n/a



Kenvirons, Inc.

452 Versailles Road • Frankfort, KY 40601 • Phone: (502) 695-4357 • Fax: (502) 695-4363

Civil & Environmental Engineering and Laboratory Services

July 25, 2008

Mr. John Jones
Allen County Water District
P.O. Box 58
Scottsville, Kentucky 42164

RE: Water Purchase Rate Increase

Dear John:

Per your request I have reviewed the impact of the recent wholesale water rate increase on the district's financial condition. As you know, water districts are supposed to be a non-profit organization. This obviously means that revenues less expenses should equal about zero. The question then is, what does the PSC allow in the expenses. There are basically five (5) items that are allowed in the rate base of water districts and water associations, namely (1) operating and maintenance expense, (2) debt service interest, (3) debt service principal, (4) debt service coverage and (5) depreciation. Theoretically, the annual revenues less the above listed expenses should equal about zero, however, I have never known the PSC ordering a reduction in rates because the net income exceeded zero. With this background in mind, several documents have been generated showing the impact of the increased water purchase rate on the district's financial condition.

The PSC's Purchased Water Adjustment calculation form was prepared which ultimately shows the increased water cost to be \$120,912 based on the 12-month period of July, 2007 through June, 2008. The calculations for that cost increase are shown in Exhibit 2.

Exhibit 4 shows a cash flow calculation for the year 2007 plus known and measurable adjustments that are shown in Exhibit 3. As shown at the bottom of Exhibit 4, the net income is \$27,992 after accounting for the purchase water increased cost and adjustments to the 2007 expenses.

The indication is that the district could absorb the increased purchased water cost relative to the \$1.75 per thousand gallons rate along with the adjustments to the 2007 expenses. Next year the rate will increase to \$1.95. Based on the same parameters, the purchased water cost will increase an additional \$69,092, which would cause a negative net income of approximately \$41,000. The above calculations do not consider any customer growth, which would generate a small amount of additional revenues.

The conclusion is that the district could absorb the initial \$1.75 per thousand rate, but not the \$1.95 that is proposed to be effective next year. The \$1.75 rate results in an increase in customer rates of \$0.41 per thousand gallons. The \$1.95 rate results in an additional \$0.23 per thousand gallons for a total of \$0.64 per thousand gallons.

Received

JUL 31 2008

PURCHASED WATER ADJUSTMENT FOR
WATER DISTRICTS AND ASSOCIATIONS
(807 KAR 5:068)

Allen County Water District
(Name of Utility)

July 24, 2008
(Date)

P.O. Box 58
(Address)

Scottsville, KY 42164
(City, State)

270-622-3040
(Telephone Number)

1.a. Name of all wholesale suppliers and the base (current) rate and changed rate of each. In the event the water purchased is billed by the supplier on a rate that is not a flat rate schedule, the entire rate shedule must be shown. Attach additional sheets if necessary.

<u>Supplier(s)</u>	<u>Base Rate</u>	<u>Changed Rate</u>
<u>City of Glasgow</u>	<u>\$1.40</u>	<u>\$1.75</u>
<u>City of Scottsville</u>	<u>\$2.04</u>	<u>---</u>
<u> </u>	<u> </u>	<u> </u>

- 1.b. A copy of the supplier's notice of the changed rate showing the effective date of the increase is attached as Exhibit 1.
2. Twelve-month period upon which the purchased water adjustment is based. (This twelve-month period must end within 90 days of this filing).

From July, 2007 through June, 2008
 (month and year) (month and year)

3. Statement of water purchases. Where water is purchased from more than one supplier, purchases from each supplier must be shown separately. If water is purchased through a declining block rate schedule, purchases for each month must be shown. Attach an additional sheet if necessary.

Supplier(s)	Gallons Purchased during 12 month period
<u>Glasgow</u>	<u>345,460,900</u>
<u>Scottsville</u>	<u>8,545,300</u>
<u>TOTAL PURCHASES</u>	<u>354,006,200</u>

4. Total sales for the 12 month period 298,120,500.

5. Increased water cost \$120,912 (Exhibit .2)

The increased water cost is the cost difference between purchases at base (current rate) and purchases at new rate.

6. Purchased water adjustment factor \$0.41 per 1,000 gals.

The purchased water adjustment factor is obtained by dividing the increased cost of water by the total gallons sold.

Note: The purchased water adjustment factor is added to each thousand gallons sold. If the minimum usage is 2,000 gallons then the purchased water adjustment factor would be added to the minimum bill twice. Revised tariff sheets must be attached showing the rate to be charged by the utility and the effective date of the increased rates.

7. Proposed effective date _____.

(Signature of Utility Officer)

(Title)

EXHIBIT 2
INCREASED WATER COST

NEW RATE

345,460.9 x \$1.75/1,000 gals	\$604,557
8,545.3 x \$2.04/1,000 gals	<u>17,432</u>
TOTAL	\$621,989

EXISTING RATE

345,460.9 X \$1.40/1,000 gals	\$483,645
8,545.3 x \$2.04/1,000 gals	<u>17,432</u>
TOTAL	\$501,077

INCREASED WATER COST	\$120,912
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EXHIBIT 3

ADJUSTMENTS TO 2007 EXPENSES

1. FUEL COST		
\$16,700 for 7 months in 2008		
Annualized Cost: $16,700 \div 7 \text{ mo.} \times 12 \text{ mo.}$		\$28,628
2007 cost		<u>25,616</u>
	INCREASE	\$3,012
2. HEALTH INSURANCE		
2008		\$126,989
2007		<u>116,810</u>
	INCREASE	\$10,179
3. TRI-COUNTY ELECTRIC		
2008 (12% increase): $\$45,654 \times 1.12$		\$51,132
2007		<u>45,654</u>
	INCREASE	\$5,478
4. DEPRECIATION		
US 231 Transmission Main: $\$1,488,000 \div 50 \text{ years}$		<u>\$29,760</u>
	TOTAL ADJUSTMENT	\$48,429

EXHIBIT 4
CASH FLOW

I. REVENUES	
Operating Revenues	\$2,000,176
Interest Income	174,617
Non-Utility Income	<u>4,002</u>
Total Revenues	\$2,178,795
II. EXPENSES	
1. O & M Expense	
1.1 Operating Expense	\$1,379,398
1.2 Taxes other than Income	34,686
1.3 Amortization of Debt Discount	<u>2,275</u>
Total O & M Expense	\$1,416,359
2. Debt Service Interest	173,698
3. Depreciation	<u>304,185</u>
Net Income (Page 19 of PSC Report)	\$284,553
4. Debt Service Principal	63,500
5. Debt Service Coverage @ 10% (\$173,698 + \$63,500) 0.10	<u>23,720</u>
Net Income after Debt Service Principal and Coverage	\$197,333
6. Purchase Water Increase	(-) 120,912
7. Adjustment to 2007 Expenses (Exhibit 3)	<u>(-) 48,429</u>
NET INCOME	\$27,992



The resulting rates are as follows:

	<u>Existing</u>	WHOLESALE RATE	
First 2,000 gallons	\$16.17	\$1.75	\$1.95
Next 3,000 gallons	8.21	\$16.99	\$17.45
Next 5,000 gallons	5.16	6.62	6.85
Next 60,000 gallons	4.66	5.57	5.80
Over 70,000 gallons	4.21	5.07	5.24
		4.62	4.85

The district could absorb the wholesale rate increase this year and pick it up next year completely or partially. If you wanted to exercise the purchase water adjustment completely for both years, I don't believe the PSC would object.

Regarding the rate study prepared for Glasgow, I believe there are some issues that could be challenged that might result in a somewhat lower rate. Digging into the City's data and preparing a rate study report could get costly and if the City decided to fight it, the cost for hearings, attorneys and witnesses add to that expense. Anything under \$2.00 is considered a good wholesale rate at this point in time.

Think all of this over and I will attend your next meeting to discuss it if you feel that would be helpful.

Sincerely,

A handwritten signature in black ink, appearing to read 'CFM', written over a light blue horizontal line.

Carlos F. Miller, P.E.
Vice President

CFM/pmw

FOR ALLEN COUNTY, KENTUCKY
Community, Town or City

P.S.C. KY. NO. _____

_____ SHEET NO. _____

ALLEN COUNTY WATER DISTRICT
(Name of Utility)

CANCELLING P.S.C. KY. NO. _____

_____ SHEET NO. _____

RULES AND REGULATIONS

TARIFF/RESOLUTION AS TO INCREASE IN WHOLESALE WATER RATE

KRS 278.015(2) AND 807 KAR 5:068 provides essentially the manner in which a Water District may implement a Purchase Water Adjustment designed to recover the actual cost of water purchased by a Water District from a wholesale supplier.

The Allen County Water District purchases substantially all of its water from the Glasgow Water and Sewer Commission of Glasgow, Kentucky. By its Ordinance No. 2633, the City of Glasgow, Kentucky, established new rates for the Glasgow Water and Sewer Commission to charge increased new wholesale rates to be charged to its customers, including the Allen County Water District, effective July 1, 2008. A copy of said Ordinance is attached hereto as a part hereof, effective July 1, 2008.

The Allen County Water District was notified of this increase by a letter from the Glasgow Water Company, dated May 16, 2008. A copy of said letter is filed herewith as a part hereof.

By Letter dated July 25, 2008, to the Allen County Water District from its engineer, KENVIRONS, INC., the Water District was informed "The indication is that the district could absorb the increased purchased water cost relative to the \$1.75 per thousand gallons rated along with the adjustments to the 2007 expenses. Next year the rate will increase to \$1.95. Based on the same parameters, the purchased water cost will increase an additional \$69,092, which would cause a negative net income of approximately \$41,000. The above calculations do not consider any customer growth, which would generate a small amount of additional revenues. The conclusion is that the district would absorb the initial \$1.75 per thousand rate, but not the \$1.95 that is proposed to be effective next year. The \$1.75 rate results in an increase in customer rate of \$0.41 per thousand gallons. The \$1.95 rate result in an additional \$0.23 per thousand gallons for a total of \$0.64 per thousand gallons."

NOW, THEREFORE, be it RESOLVED by the Board of Commissioners of the Allen County Water District in regular session this 3rd day of February, 2009, as follows:

DATE OF ISSUE _____
Month / Date / Year
DATE EFFECTIVE _____
Month / Date / Year
ISSUED BY _____
(Signature of Officer)
TITLE _____
BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____

FOR ALLEN COUNTY, KENTUCKY
Community, Town or City

P.S.C. KY. NO. _____

_____ SHEET NO. _____

ALLEN COUNTY WATER DISTRICT
(Name of Utility)

CANCELLING P.S.C. KY. NO. _____

_____ SHEET NO. _____

RULES AND REGULATIONS

1. That the Allen County Water District adopts as Tariff the provision of KRS 278.015(2) AND 807KAR 5:068, providing that when a wholesale supplier selling water (Glasgow Water and Sewer Commission) to water district (Allen County Water District) the district shall have the authority to increase its rate commensurate with the wholesale supplier without prior approval by the Public Service Commission.

Within twenty (20) days after any such increase in rates, the district shall file its revised tariffs with the Commission, together with a copy of the Notice from its wholesale supplier showing the increase in the rate charged to the utility, and a statement of the volume of purchased water used to calculate the increase in rates. The Commission shall approve the filing or establish revised rates by order no later than thirty (30) days after the above document are filed with it. Prior to or at the time of the first billing of the new rates, the district shall give notice to its customers of the increase.

2. The last increase in Allen County Water District's rates was May 25, 1993 when the rates were increased from \$13.45 to \$16.17.

3. That, based on the report of Kenvirons, the Allen County Water District elects to absorb the increase in the purchased water costs (from Glasgow Water Company) effective July 1, 2008 from \$1.40 per one thousand gallon to \$1.75 per one thousand gallon along with the adjustment to the 2007 expenses. This increase will not be passed on to customers of the Allen County Water District.

4. That the Allen County Water District will be unable to absorb the \$1.95 per one thousand gallons rate increase, which the Glasgow Water Company will charge effective July 1, 2009. Therefore, the Allen County Water District will calculate its rates on a \$0.20 increase (\$1.75 to \$1.95) from the Glasgow Water Company

5. Therefore, based on the conclusions of Carlos Miller, P.E. as shown in his letter of July 25, 2008, the increase in customer rates effective July 1, 2009 is \$0.64 per one thousand gallons.

6. This tariff/resolution is subject to the approval of the Public Service Commission. Once the Commission approves, the Allen County Water District will notify all customers of the new rates prior to the first billing of the new rates

DATE OF ISSUE _____
Month / Date / Year

DATE EFFECTIVE _____
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ISSUED BY _____
(Signature of Officer)

TITLE _____

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____